TITLE 86: REVENUE
CHAPTER I: DEPARTMENT OF REVENUE

PART 130
RETAILERS' OCCUPATION TAX

Section 130.345 Oil Field Exploration, Drilling and Production Equipment

a) General

1) Notwithstanding any other provision of this Section, the exemption provided in this Section is effective through June 30, 2003. On and after July 1, 2003, the tax applies to sales of new or used oil field exploration, drilling, and production equipment. Prior to June 25, 1996, notwithstanding the fact that the sales may be at retail, the Retailers' Occupation Tax Act does not apply to sales of new or used oil field exploration, drilling, and production equipment costing $250 or more, including rigs and parts of rigs; rotary rigs; cable tool rigs; workover rigs; pipe and tubular goods, including casing and drill strings; pumps and pump-jack units; storage tanks and flow lines; any individual replacement part for oil field exploration, drilling, and production equipment, if the replacement part costs in excess of $250; and machinery and equipment purchased for lease; but excluding motor vehicles required to be registered pursuant to the Illinois Vehicle Code. On and after June 25, 1996, the exemption is not conditioned upon the $250 purchase threshold requirement.

2) Oil field exploration, drilling and production

A) This exemption applies only to equipment used primarily in oil field exploration, drilling and production. Use of the equipment in any other type of exploration, drilling or mineral production will not be a qualified use and such equipment will be subject to tax. The equipment used in drilling, production or exploration of minerals, coal or water is not a qualified use of such equipment and will be subject to the full rate of tax. Excluded from this exemption are motor vehicles required to be registered pursuant to the Illinois Motor Vehicle Code [625 ILCS 5]. Special mobile equipment other than motor vehicles may qualify for the exemption if they are used primarily in oil field exploration, drilling or production. The exemption does not include supplies (such as drilling mud, well cement, acid, chemicals or explosives), coolants, lubricants, adhesives, solvents, items of personal apparel (such as gloves, shoes, glasses, goggles, coveralls, aprons, masks, mask air filters, belts, harnesses or holsters), coal, fuel oil, electricity, natural gas, artificial gas, steam, gasoline, diesel fuel, refrigerants, water or chemical additives to crude oil.

B) "Oil field exploration" means the search for oil or natural gas. Exploration includes: Seismic studies, core testing and the drilling of test wells (wildcat wells).

C) "Drilling" means the act of boring a hole through which oil or gas may be produced if encountered in commercial quantities.

D) "Production" means the act or process of producing oil or gas.

E) "Drilling rigs" include rotary, cable tool and workover rigs and parts thereof.

F) "Production lease" means the land described in a lease instrument on which drilling for the production of oil or gas occurs.

G) "Pipe and tubular goods" include casing, drill strings, rods and wire rope. Prior to June 25, 1996, "pipe and tubular goods" sold by the linear foot qualify for the reduction if the cost of the total length sold in an individual transaction or sale exceeds $250. On and after June 25, 1996, there is no such limitation.

H) "Production equipment" includes gasoline, diesel and electric engines used as a power source, pumps and pump-jack units and parts thereof, storage tanks, flow lines and parts thereof located on the producing lease.

I) "Kits" means kits comprised of several parts which are ordered from a manufacturer, inventoried and sold by a retailer as a single item, and items, such as a pump, which are assembled by the retailer at the time of sale from components selected by the purchaser and which are sold as a unit. Prior to June 25, 1996, kits will be treated as a single item for the purposes of the $250 per individual item limitation. On and after June 25, 1996, there is no such limitation.

b) Nonexempt Illustrations
By way of illustration and not limitation, the following activities will not be considered oil field exploration, drilling, or use of production equipment:

1) The use of equipment in the construction, reconstruction, alteration, remodeling, servicing, repairing, maintenance or improvement of real estate. Material, such as steel, concrete, rock and other building material, will not qualify for the exemption;

2) the use of equipment in general maintenance or repair work on exploration, drilling or production equipment;

3) the use of equipment in research and development for drilling or oil field production or exploration;

4) the use of equipment off the production lease to store, convey, handle or transport oil;

5) the use of equipment, trailers or structures in management, sales or other nonproduction, nonoperational activities including inventory control, production or drilling scheduling, purchasing, receiving, accounting, fiscal management, communications, security, marketing, product exhibition and promotion, personnel recruitment, selection or training;

6) the use of equipment to prevent or fight fires, protective equipment such as face masks, helmets, gloves, coveralls, goggles, gas masks or for safety or accident protection or first-aid, even though such equipment may be required by law;

7) the use of equipment for ventilation, heating or illumination not required by the exploration, drilling or production process.

c) Sales to Lessors of Oil Field Exploration, Drilling and Production Equipment

1) For the exemption to apply, the purchaser need not, himself, employ the equipment in oil field exploration, drilling or production. If the purchaser leases that equipment to a lessee-explorer, driller or producer who uses it in a qualified manner, the sale to the purchaser-lessor will be eligible for the reduced rate of tax. A supplier may exclude such sales from his taxable gross receipts provided the purchaser-lessor provides to him a properly completed certificate and the information contained therein would support an exemption if the sale were made directly to the lessee-explorer or driller or producer.

2) Should a purchaser-lessor subsequently lease the equipment to a lessee who does not use it in a manner that would qualify for the reduction, the purchaser-lessor will become liable for the tax which he previously did not pay.

d) Certificates of Qualified Use

Certificates must be executed by the purchaser at the time of purchase. The certificate must include the seller's name and address, the purchaser's name and address and a statement that the property purchased will be used for oil field exploration or oil field drilling or as oil field production equipment. Retailers may accept blanket certificates, but have the responsibility to obtain, and must maintain, all certificates as part of their books and records. An item of oil field production, oil field drilling or oil field exploration equipment, which is initially used in oil field production, oil field drilling or oil field exploration and having been so used for less than one-half of its useful life, if converted to nonqualified uses, will become subject to tax at the time of conversion.

(Source: Amended at 28 Ill. Reg. 11271, effective July 21, 2004)